

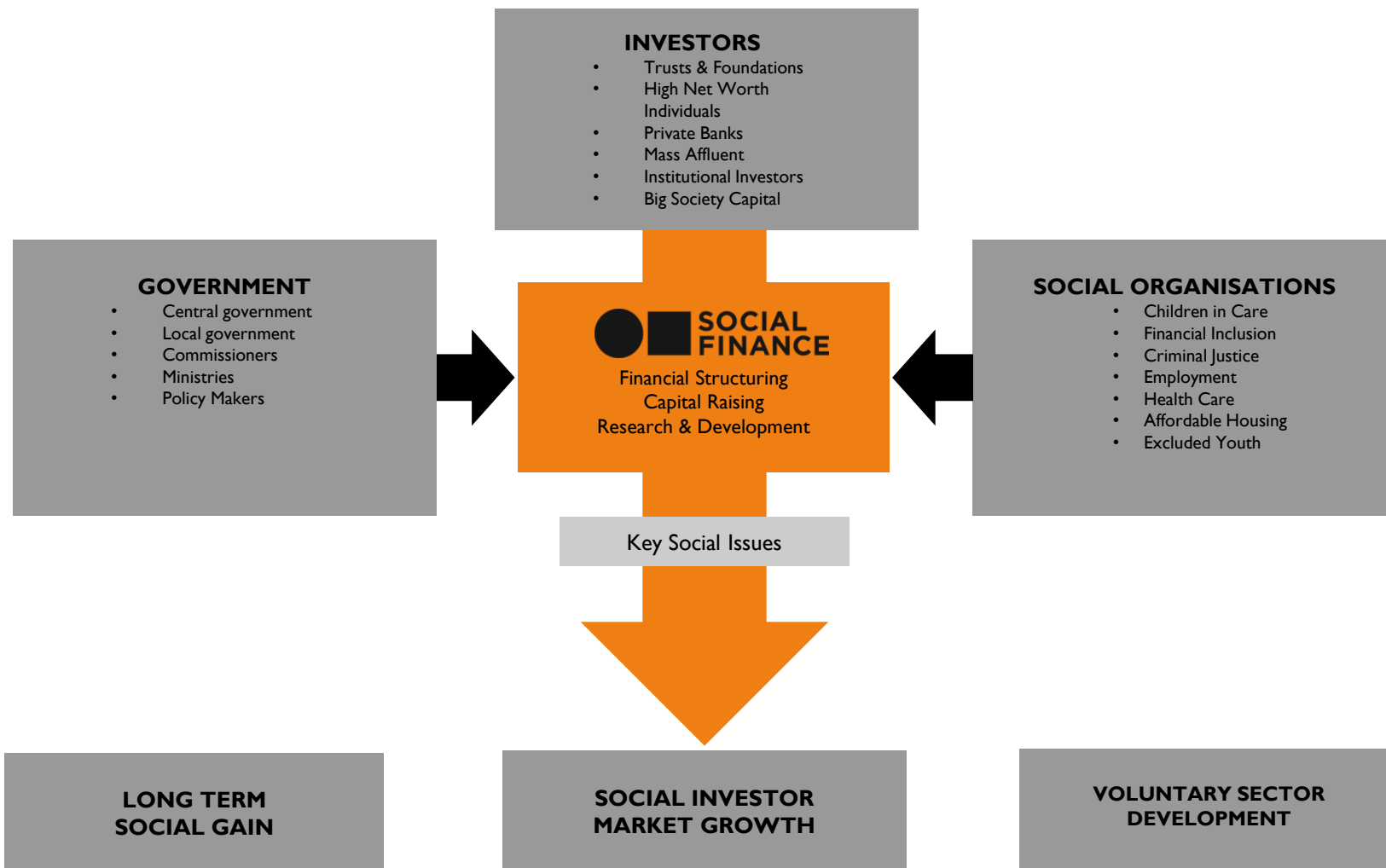
# SOCIAL INVESTMENT: SUPPORTING INCLUSION AND EMPLOYMENT

16 NOVEMBER 2011

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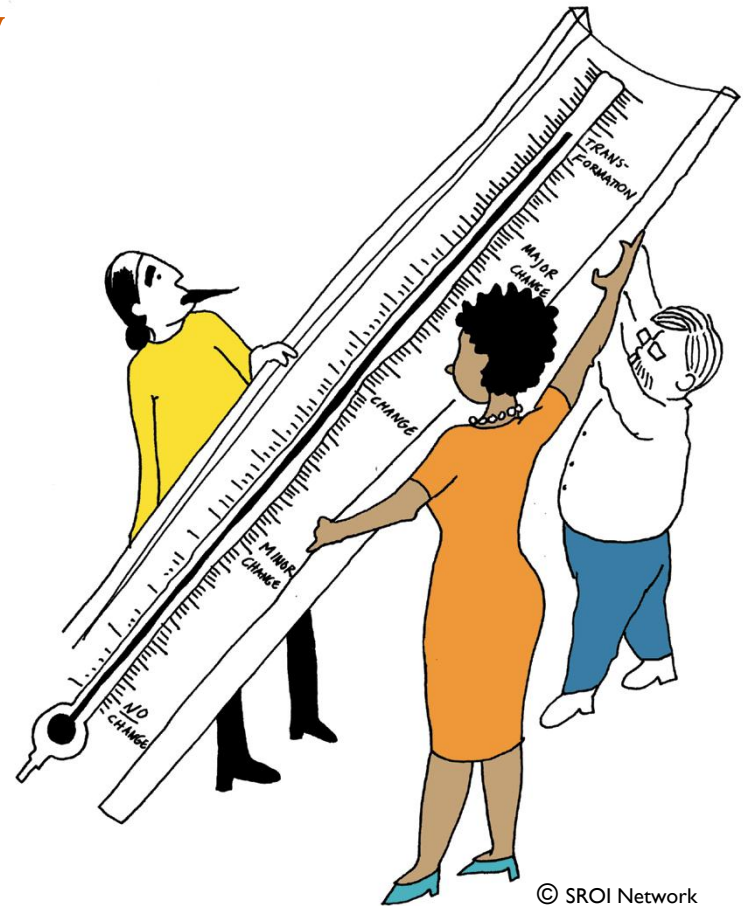


**Social Finance seeks to mobilise capital to drive social change.**

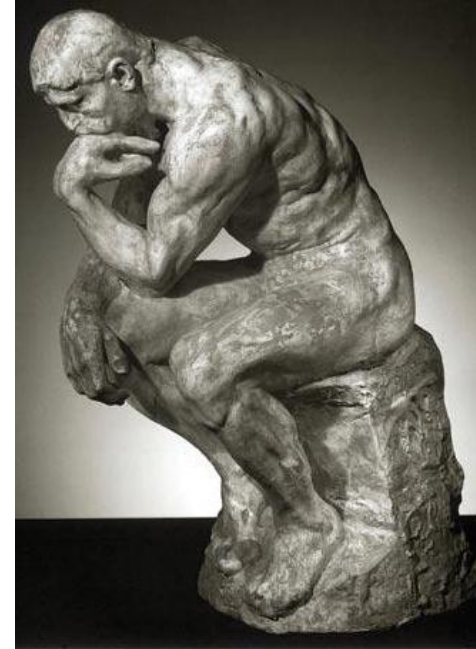




1. Social investment market overview
2. Product Development
3. Inclusion and Work programmes

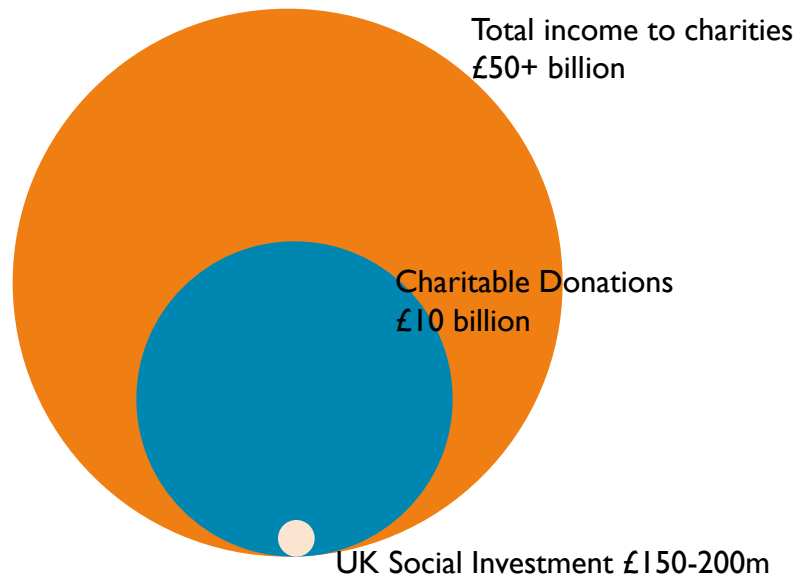


- Frustration with existing financing models
- Investors seeking social investment products
- Entrepreneurial talent seeking outlets
- Government procurement revolution – Payment By Results
- Budget cuts intensify pressure to change





## Ten organisations account for about 90% of social investment



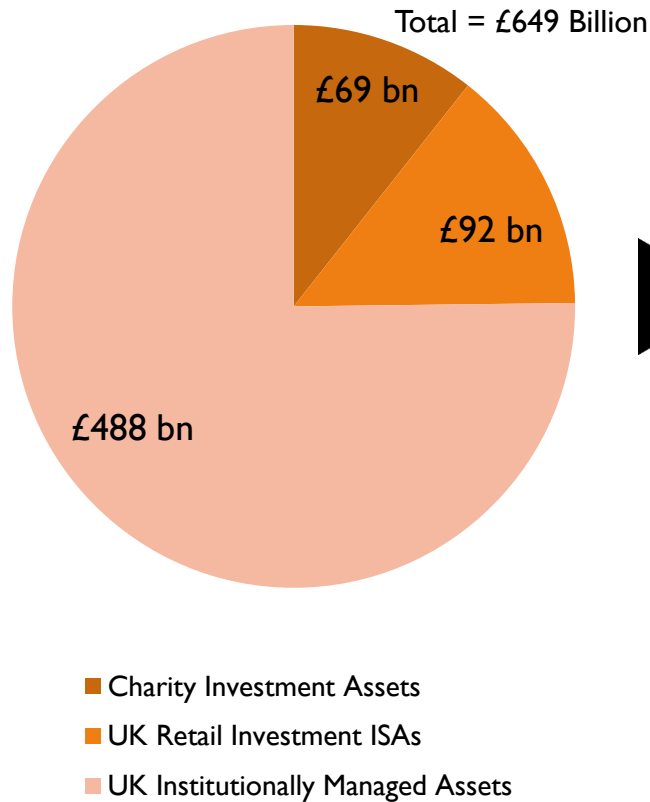
Social	↔	Investment
Visible and ideally measurable social impact		Expect return of principal plus some financial return



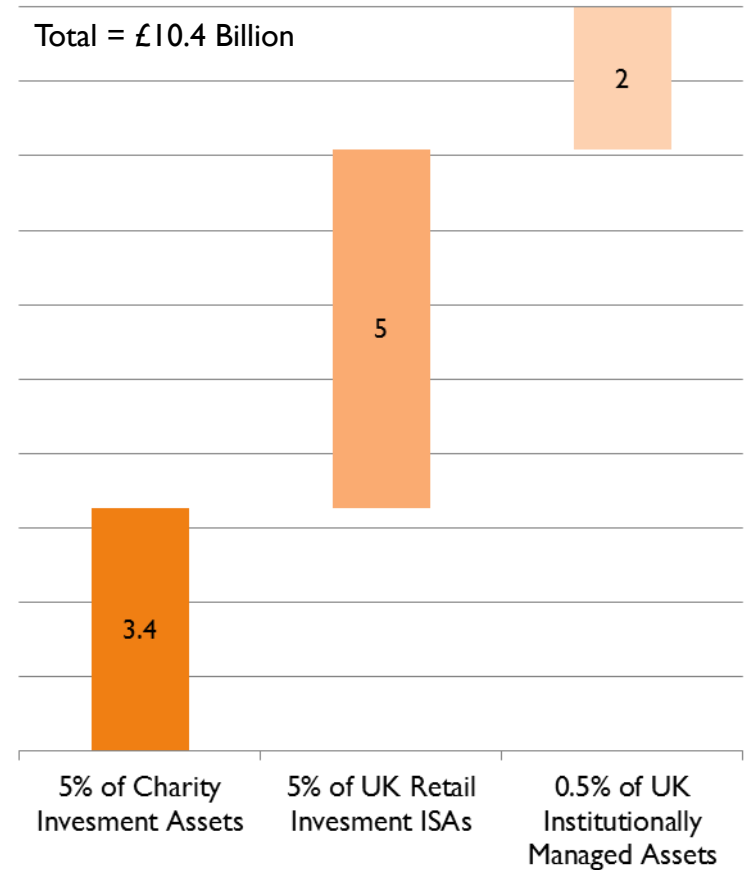
# SOCIAL INVESTMENT MARKET POTENTIAL

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**UK Investment Sources  
(£ Billion)**



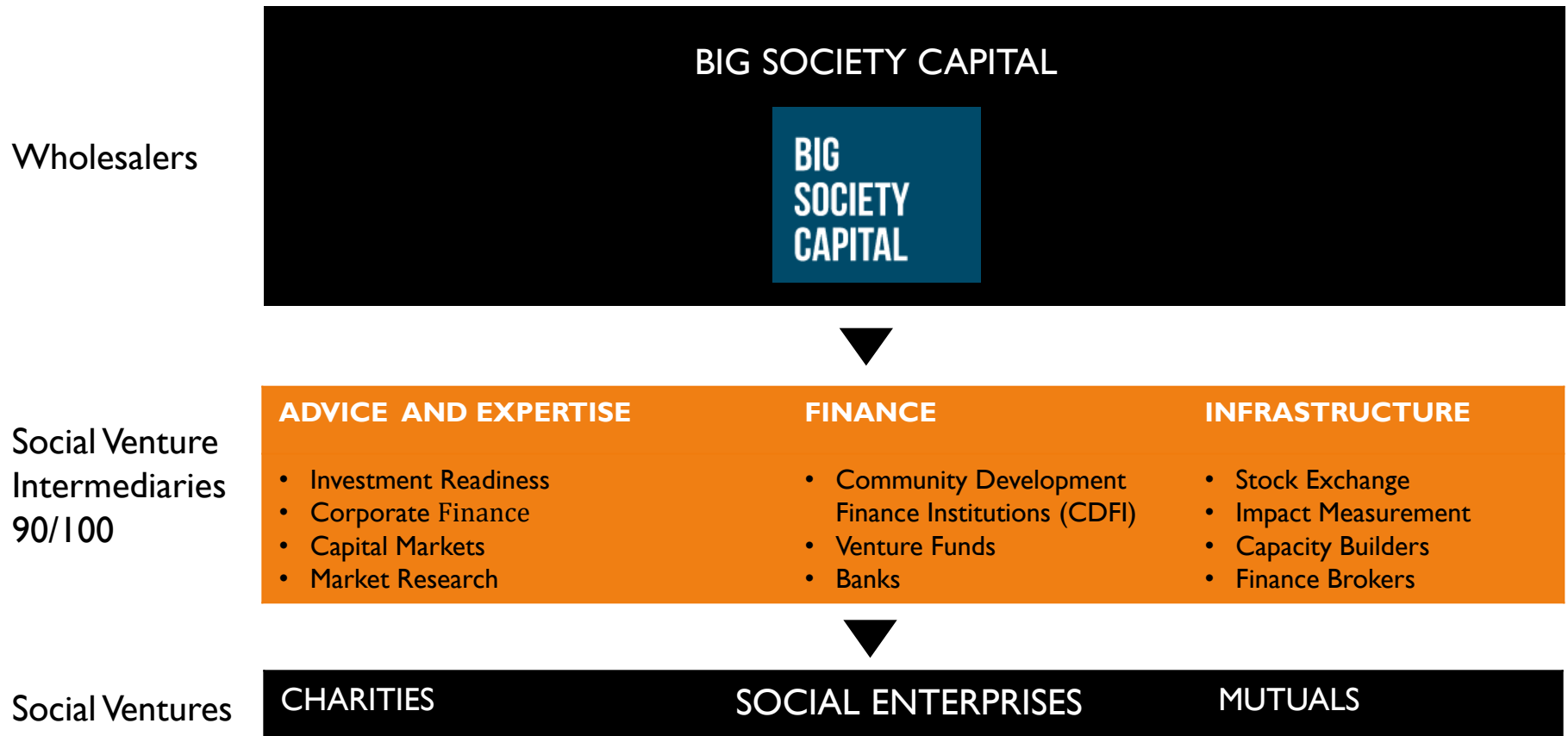
**Potential Magnitude of Social  
Investment (£ Billion)**



## MARKET STRUCTURE

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**Big Society Capital has a key role to play in providing finance to intermediaries and in acting as a champion for the social investment sector**



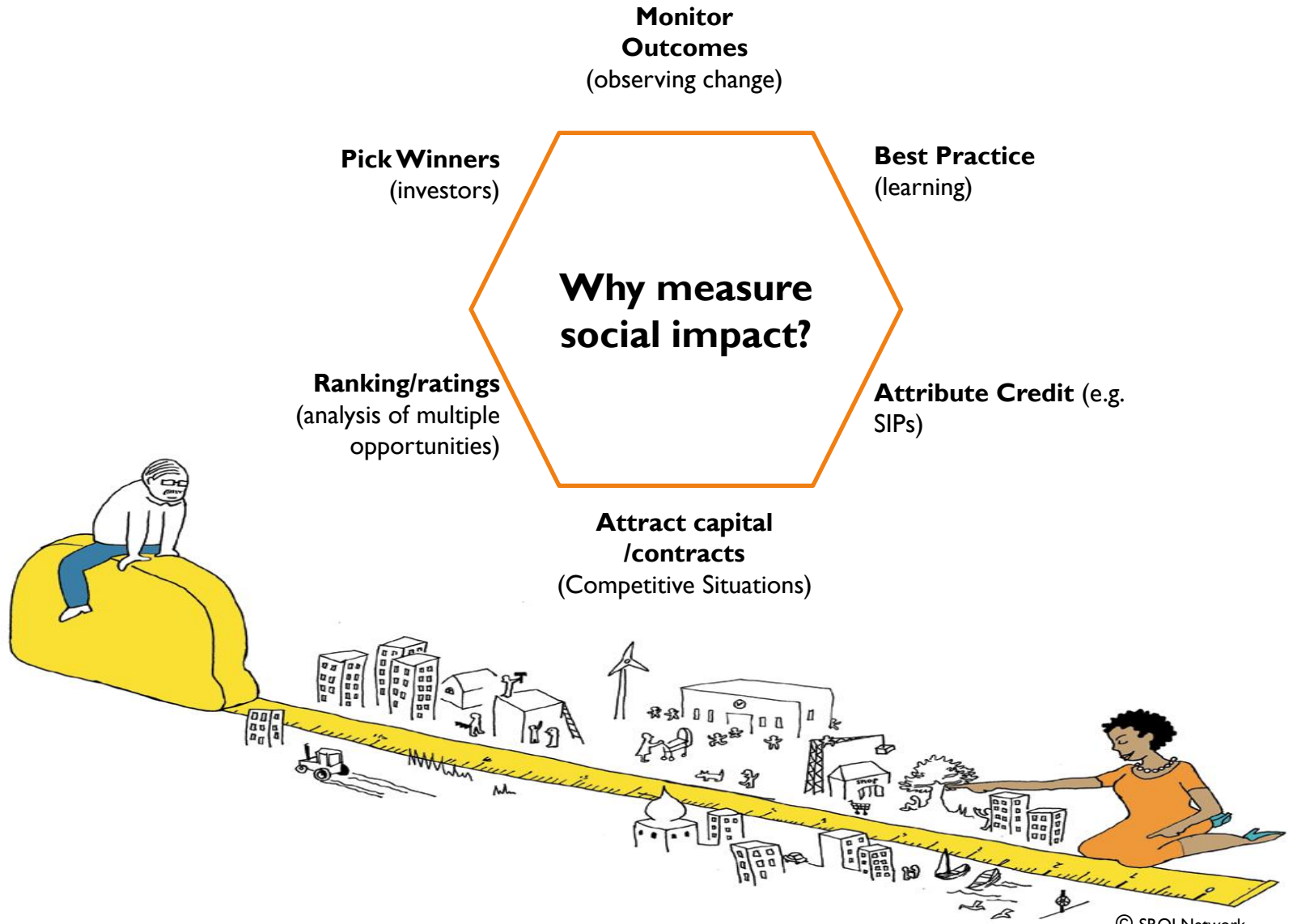


**BSC can only provide investment capital and will be seeking to track the impact of its investments**

- No grants
- Independent, self-sufficient, transparent
- £150m initially and £600m over time to invest
- Social investment champion

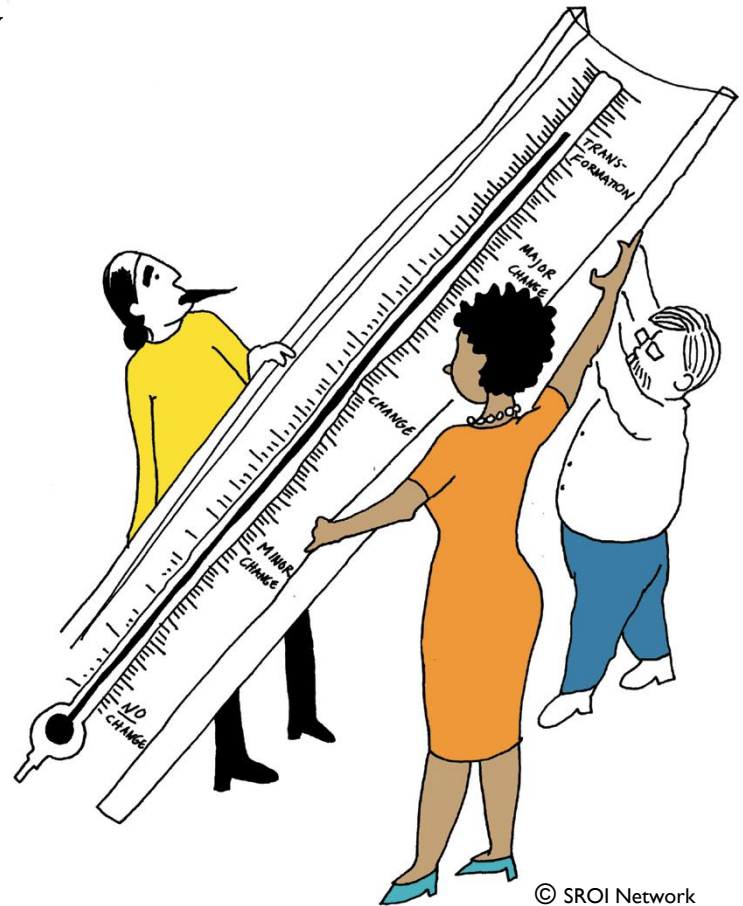








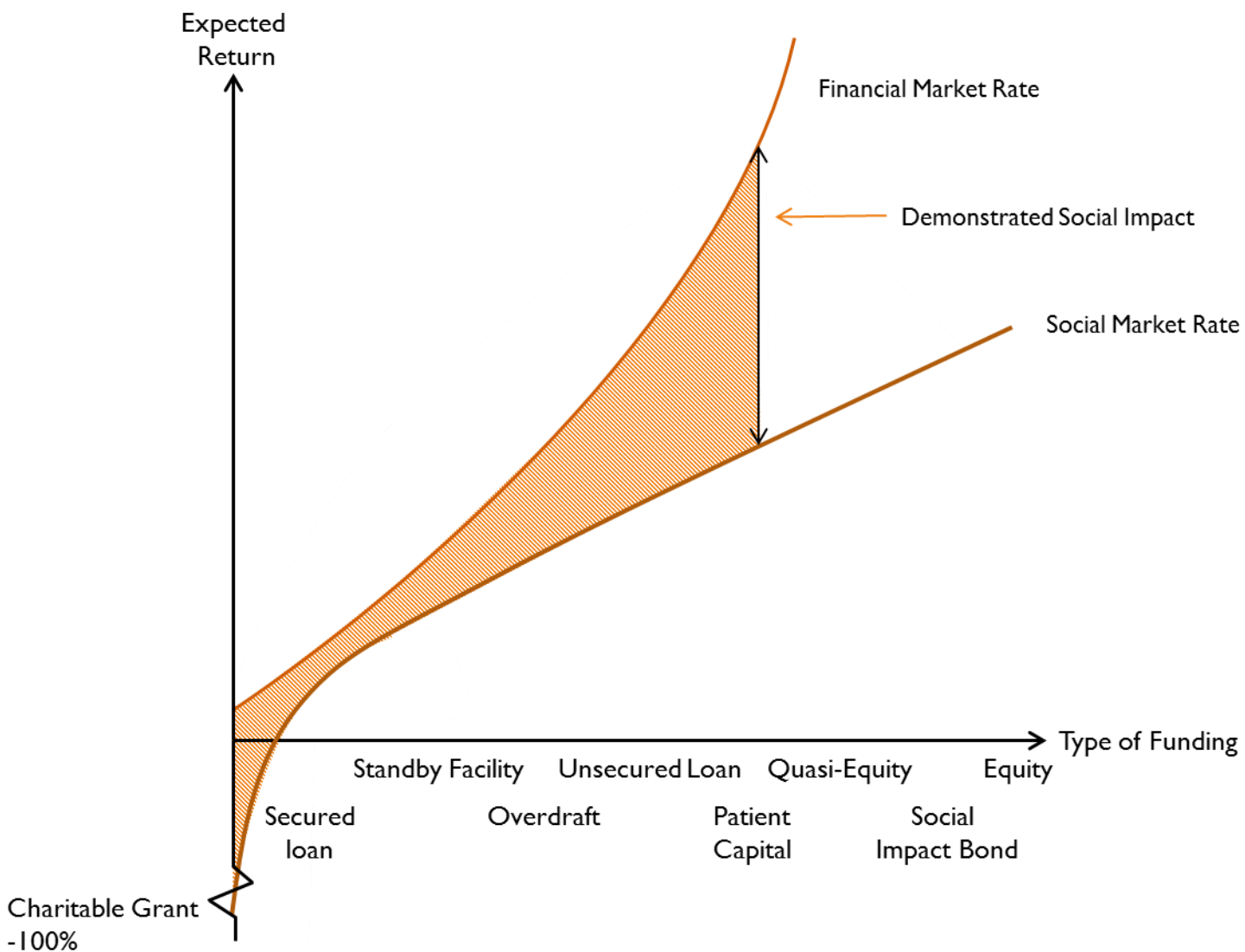
1. Social investment market overview
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# CAPITAL STRUCTURE & THE NEED TO DEMONSTRATE SOCIAL IMPACT

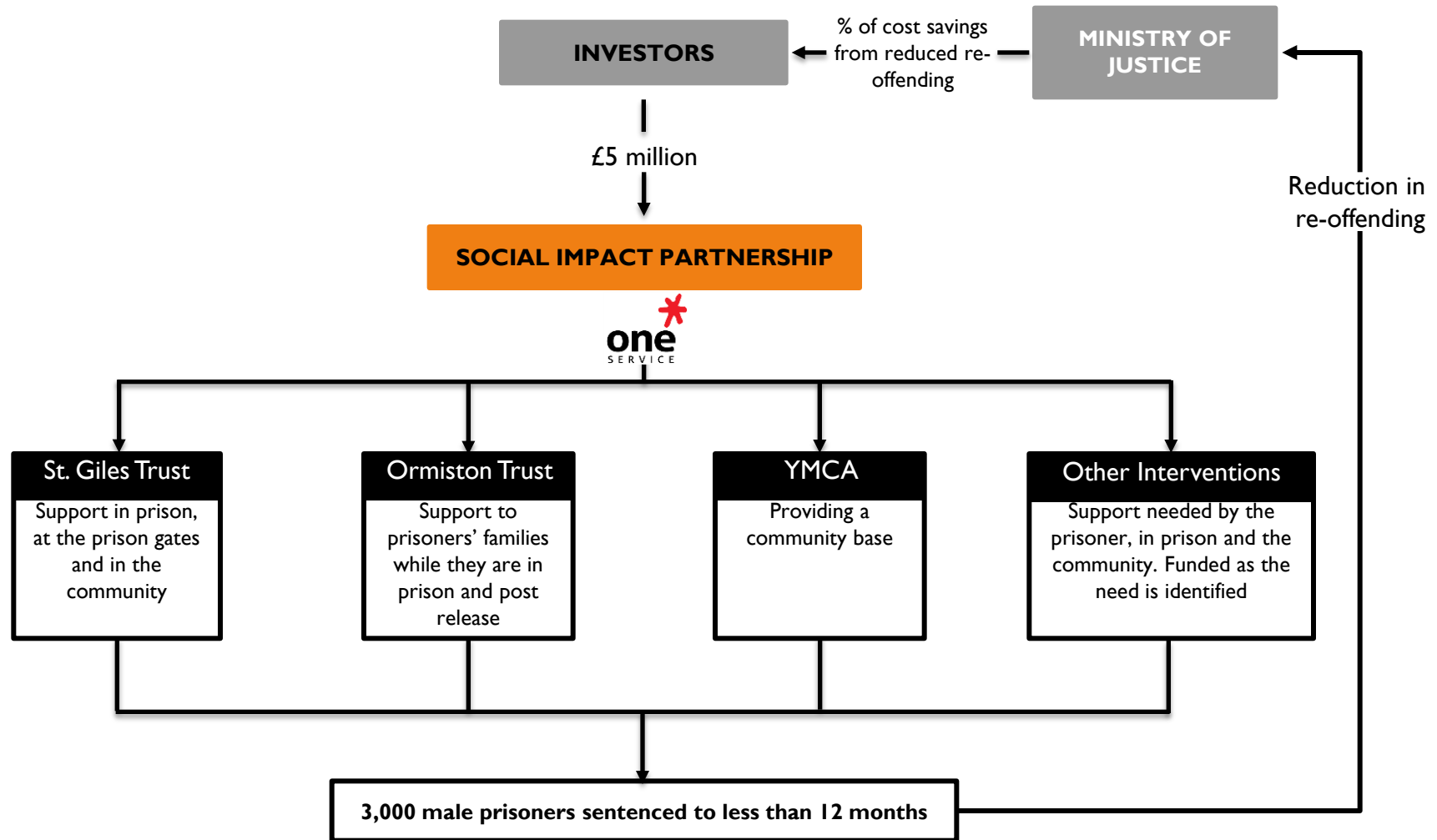
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# SOCIAL IMPACT PARTNERSHIP: PETERBOROUGH PRISON

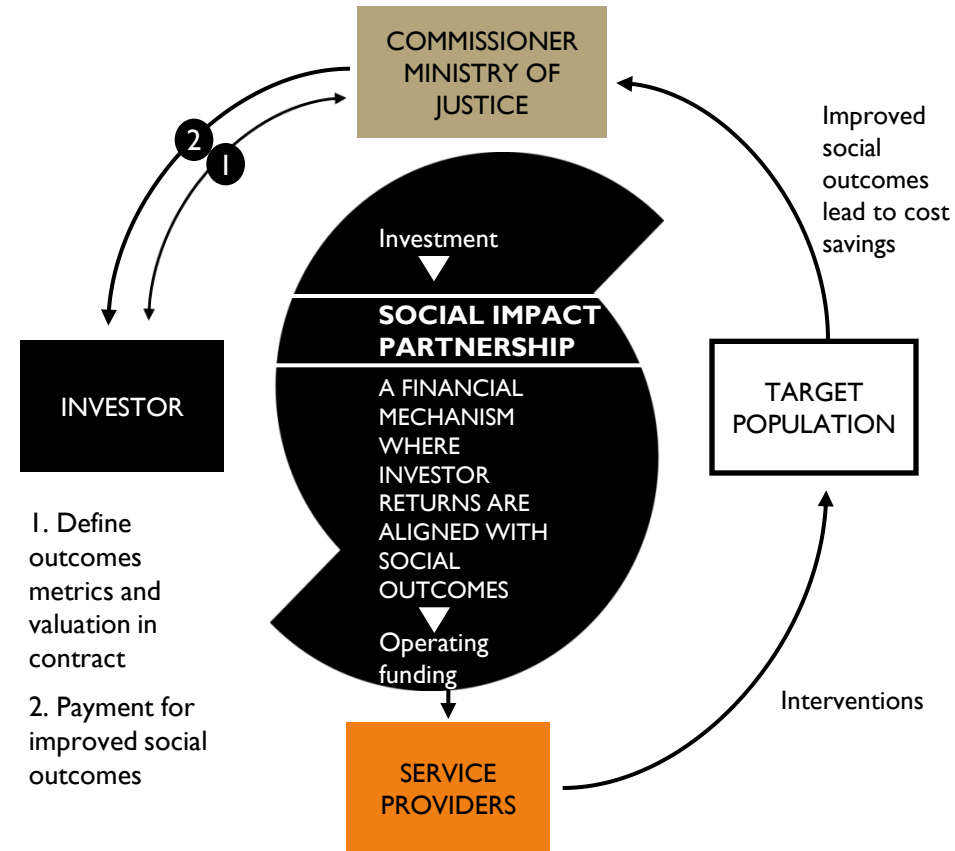
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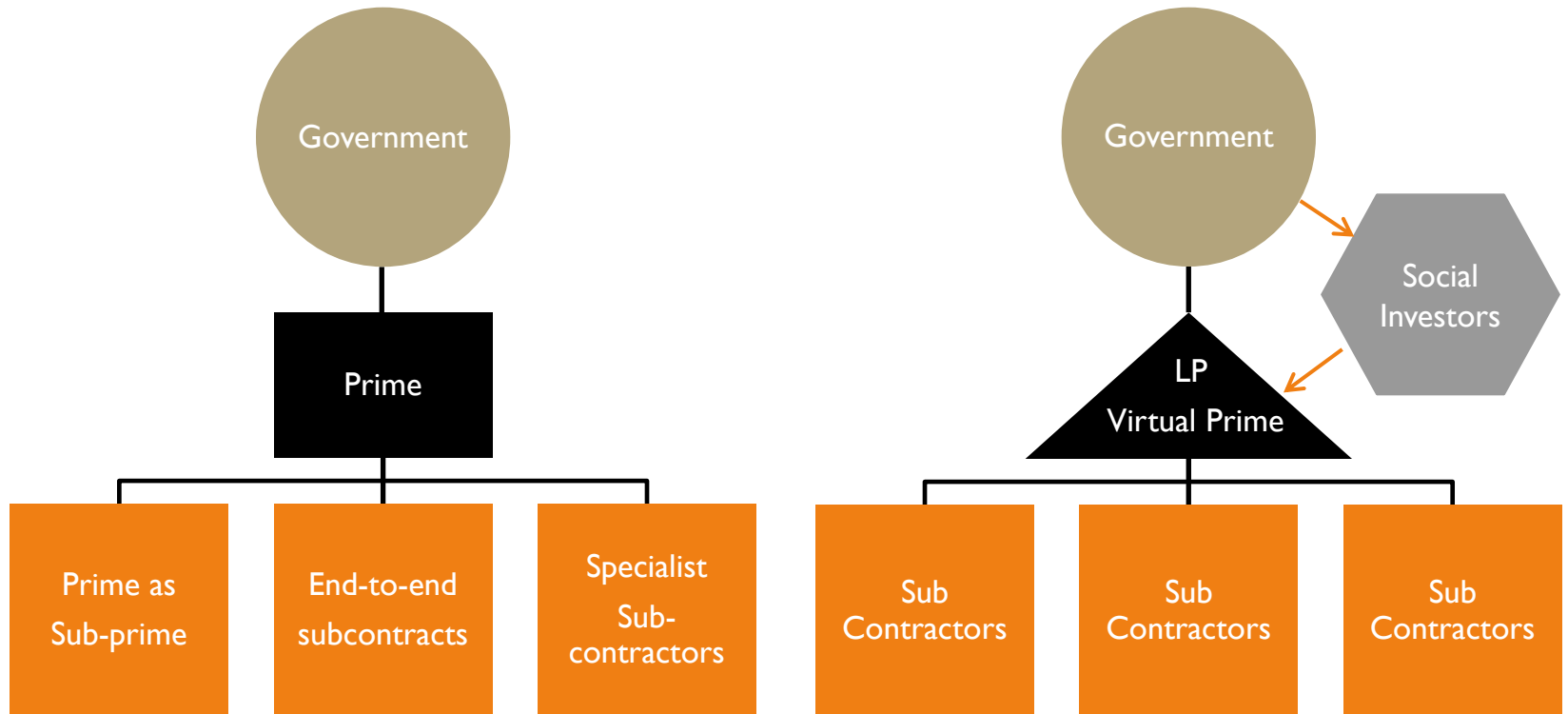
**SIPs are a way of providing increased funding for preventative services to improve social outcomes and reduce long term costs.**

- The first SIP contract was signed with the Ministry of Justice in March 2010 and officially launched in September 2010
- Social Finance raised £5m from 17 social investors to fund work with 3,000 short-sentence male prisoners leaving Peterborough prison
- Payments to investors are made in proportion to the programme's success at reducing offending among the prison leavers relative to a control group
- Investors make a financial return on their investment if the interventions are successful, but could lose their entire investment
- Indicative Investor IRRs of 10% – 13%





**Social Impact Partnerships are seeking to create a new group of relationships between Government, finance providers and service providers**



Performance management as a partnership with fair sharing of financial returns.

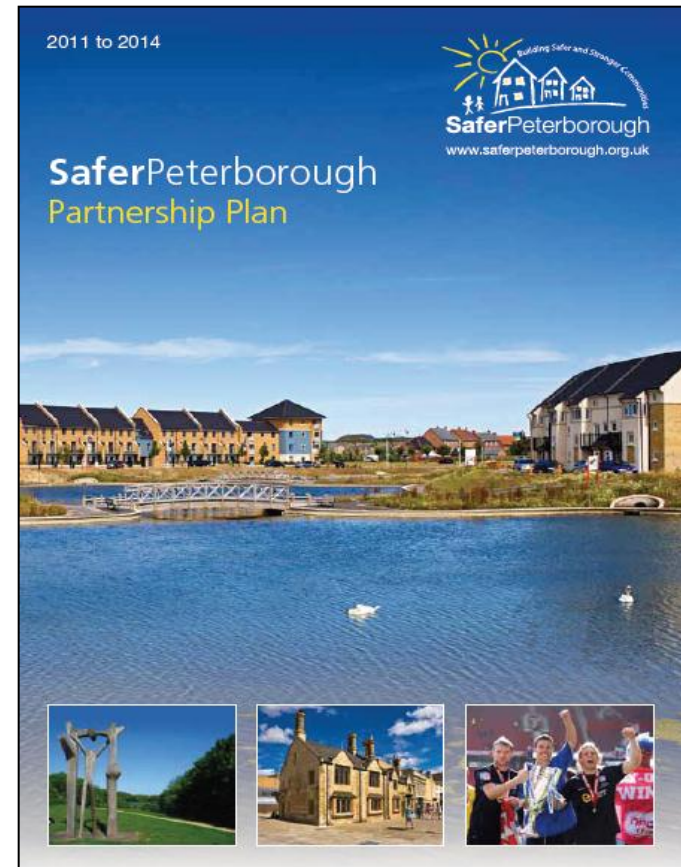


## CASE STUDY: ROLE OF THE SIB DIRECTOR

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**Peterborough SIP employs a project director to manage the service provider relationships and the relationship with prison.**

- Organisational start up
- Develop infrastructure
- Regional leadership to align with local strategic objectives
- Refine operating plan as project evolves
- Performance management of providers
- Commission new providers
- Manage relationships
- Work with press office to manage key messages / visits
- Data gathering/analysis
- Investor Reporting

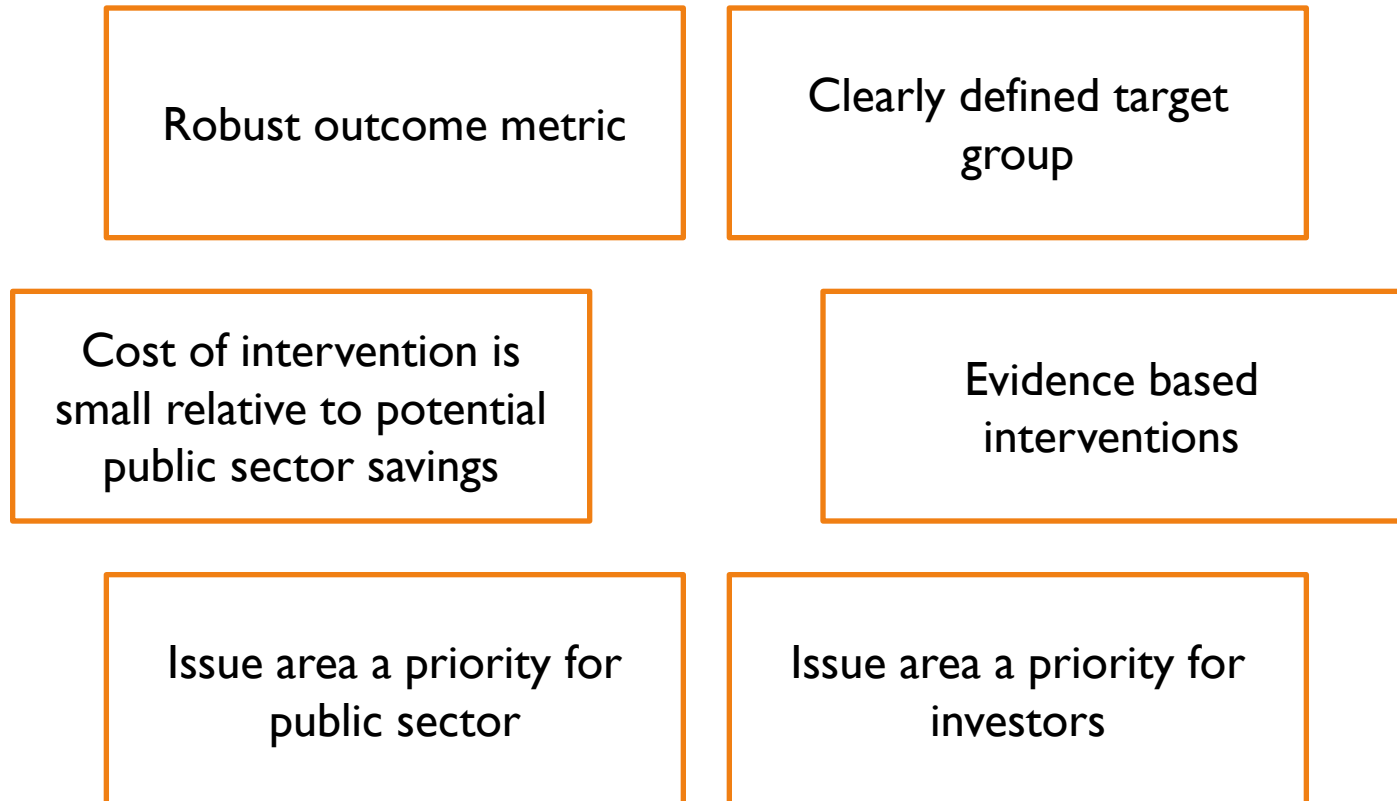




## IDENTIFYING OTHER OPPORTUNITIES FOR SOCIAL IMPACT PARTNERSHIPS

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### Preconditions for a Successful Social Impact Partnership







1. Social investment market overview

2. Product Development

3. Inclusion and Work programmes

- UK Government “Work Programme”
- DWP “Innovation Fund for NEETs”



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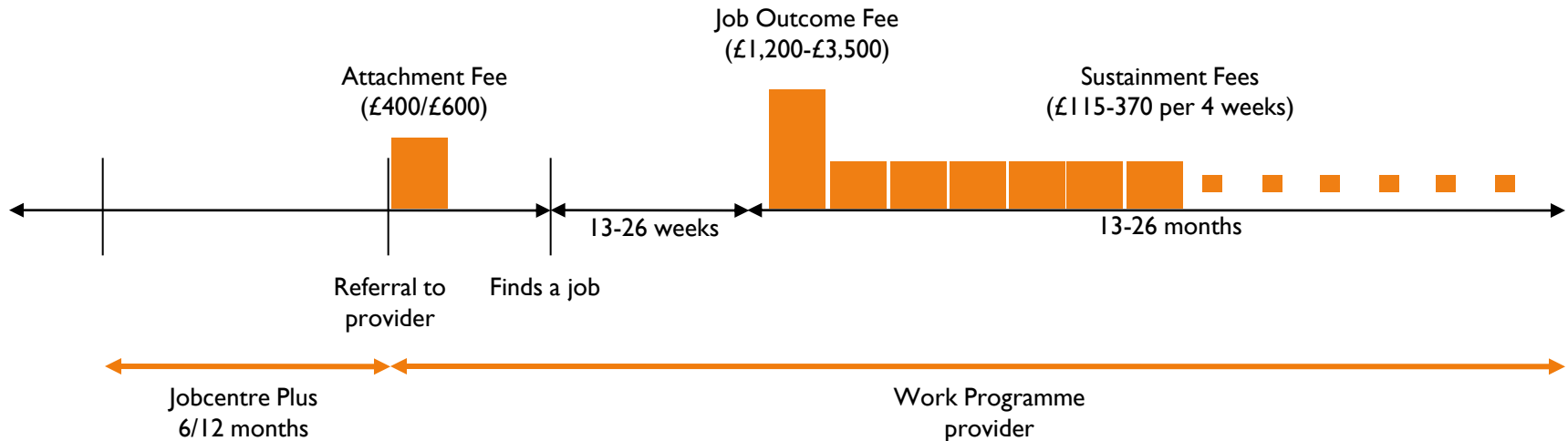
*Not in Education, Employment or Training=NEET*



# “WORK PROGRAMME” CONTRACTS REQUIRE SERVICE PROVIDERS TO OBTAIN SIGNIFICANT WORKING CAPITAL

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## Payments to providers on the customer journey for the Work Programme



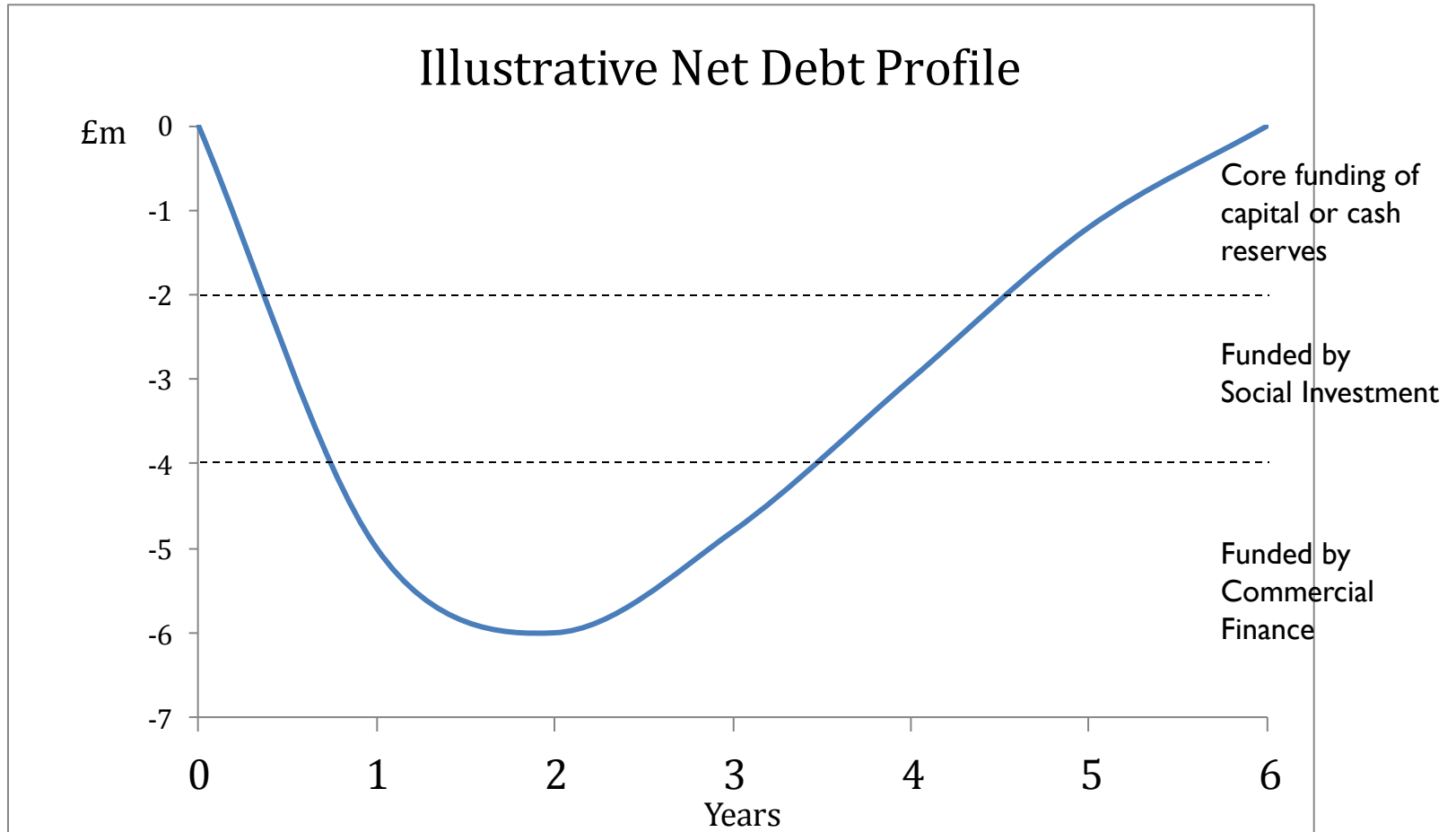
- 11 geographical lots split into 18 contracts
- Referrals for five years
  - Customer support to be provider until outcomes completed
- Contractual minimum performance standards
- Referrals shifted to better performers after month 18



# ILLUSTRATIVE WORKING CAPITAL STRAIN OF A GOVERNMENT PAYMENT BY RESULTS CONTRACT

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**Social Investment can play its part in the wider capital structure**

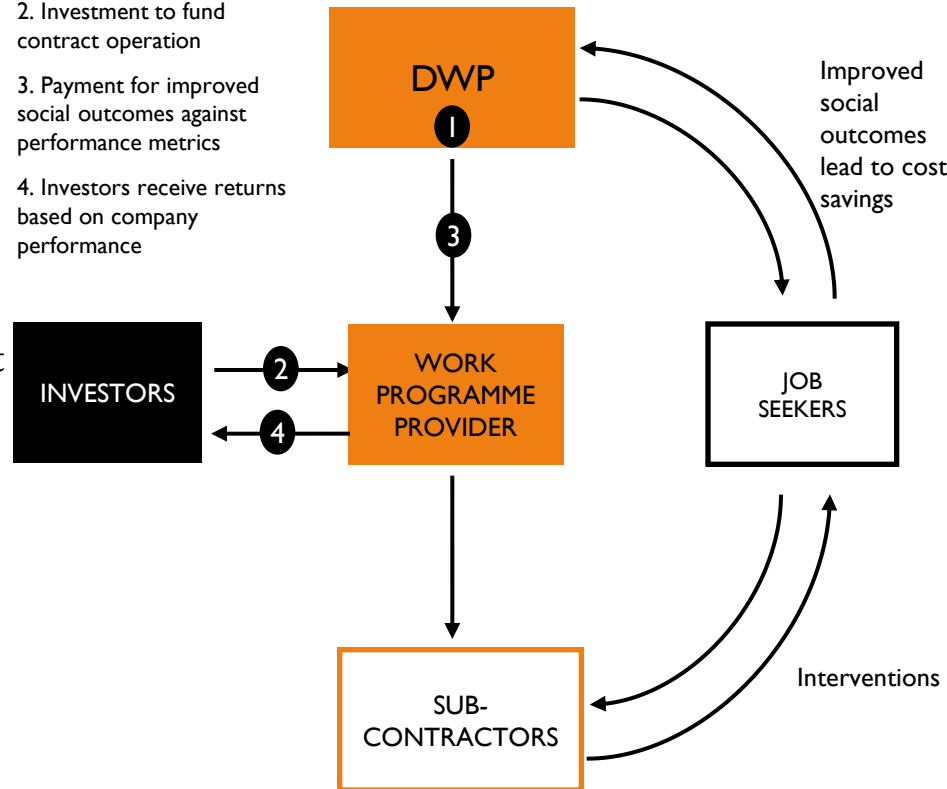




**SOCs are a loan product to enable social enterprises to raise hybrid equity linked to positive social outcomes.**

- Suitable for Social Enterprises with outcomes-linked contracts (e.g. Work Programme or other PBR contracts)
- Payments to investors are made in the form of a “**royalty return**”, a percentage of the outcomes contract revenue. As this revenue is tied directly to contractual outcome metrics (e.g. getting people into work), the return is directly related to the social impact achieved
- The SOC provides risk finance which can help social enterprises who accept the working capital risks of PBR

1. Define outcomes metrics and valuation in contract
2. Investment to fund contract operation
3. Payment for improved social outcomes against performance metrics
4. Investors receive returns based on company performance

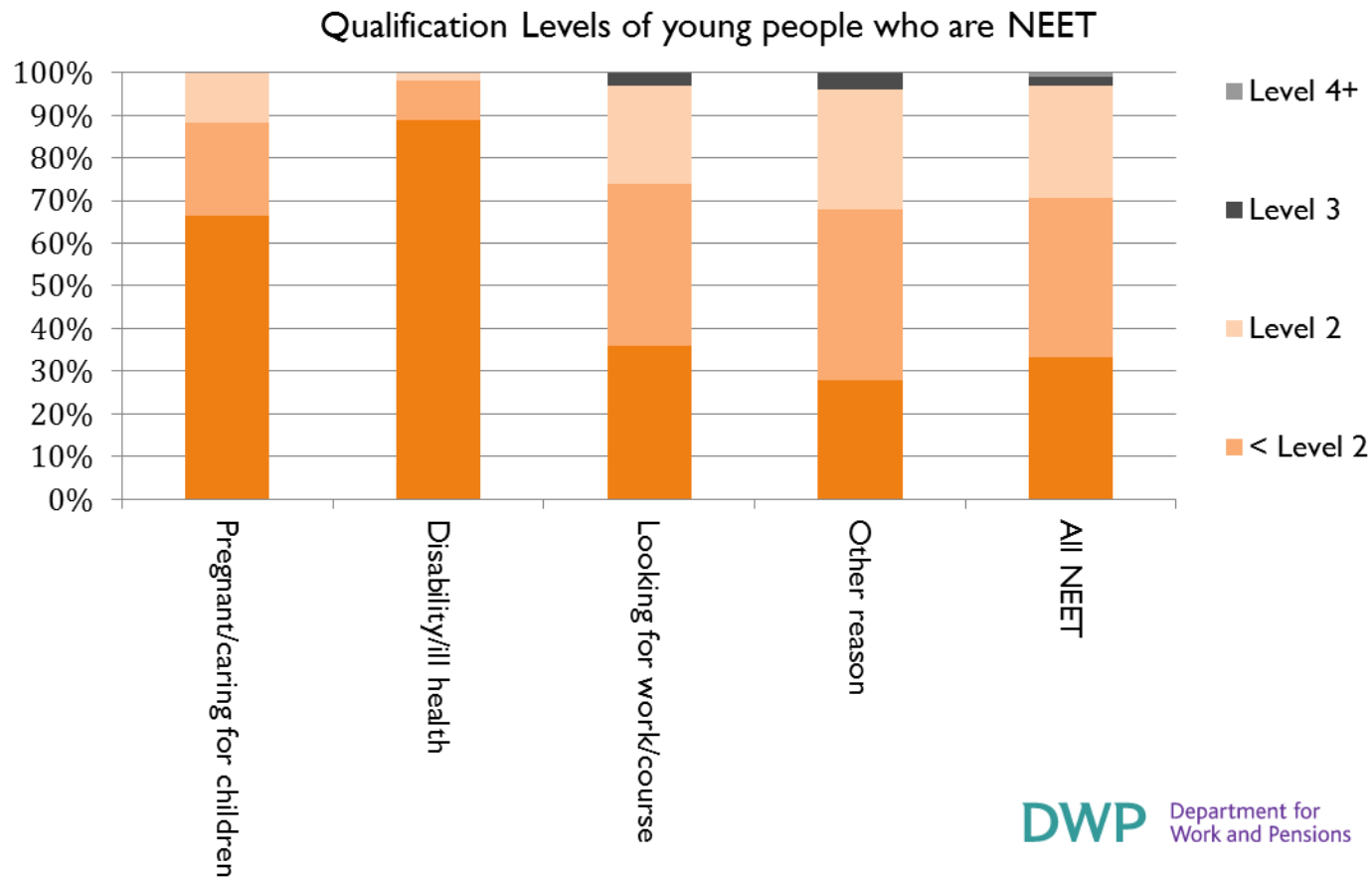




## DWP INNOVATION FUND: NEET STATISTICS 14-16 YEAR OLDS

21

Attainment at 16 is the most important factor in predicting participation and attainment

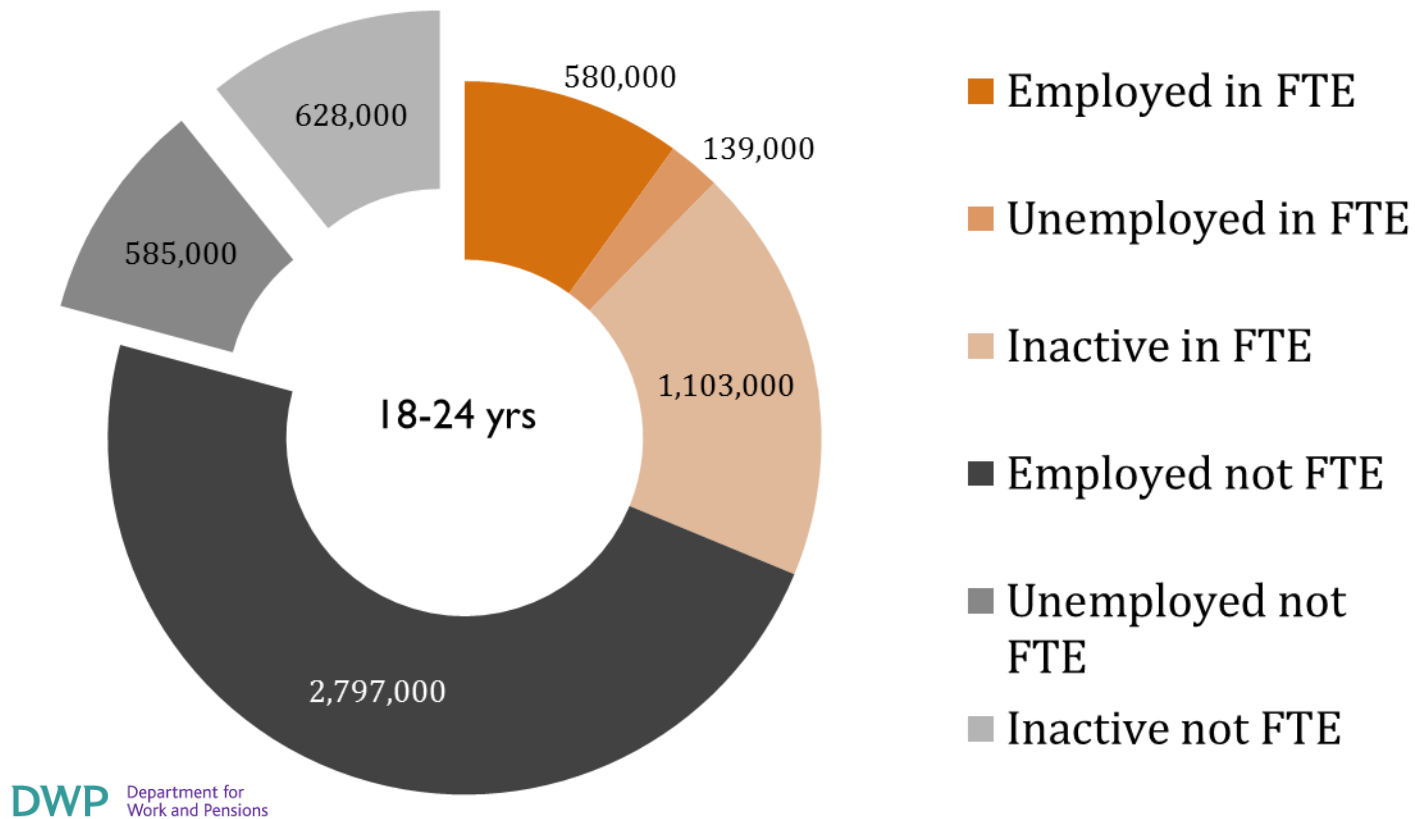




## DWP INNOVATION FUND: NEET STATISTICS 18-24 YEAR OLDS

22

Among 18-24s in the UK, 21% are economically inactive and not in Full Time Education (“FTE”)





### Objectives

1. Deliver support to young people who are disadvantaged
2. Test the extent DWP receives benefit savings, wider fiscal and social benefits and delivers SROI
3. Support the social investment marketplace, the capacity building of smaller delivery organisations and generate a credible evidence base to support future arrangements

### DWP Offers

- Up to £30m of outcome payments limited to 3 year pilot projects
- Focus on disadvantaged 14-24 yr olds
- Must use a social investment model to deliver
- Maximum project size is £3m in outcome payments per annum or £9m total
- Maximum capped values (£s) on nine identified outcomes.



DWP is seeking to integrate social investment models into a procurement process. DWP has encouraged feedback and joint learning



### DWP Objective

Focus on most disadvantaged

Improve on predicted non-intervention levels or 'deadweight'

Promote a social investment market

Develop capacity of smaller social enterprises

### Wish List

- Higher outcome values
- Additional outcome metrics

Update deadweight assumptions for most recent experience and tough economic conditions

Time to raise social investment

- Allow reasonable investor returns (IRR)
- Allow pooled structures(Funds)
- More flexible contract structure
- Pragmatic approach to performance management
- Fund structures should promote shared learning

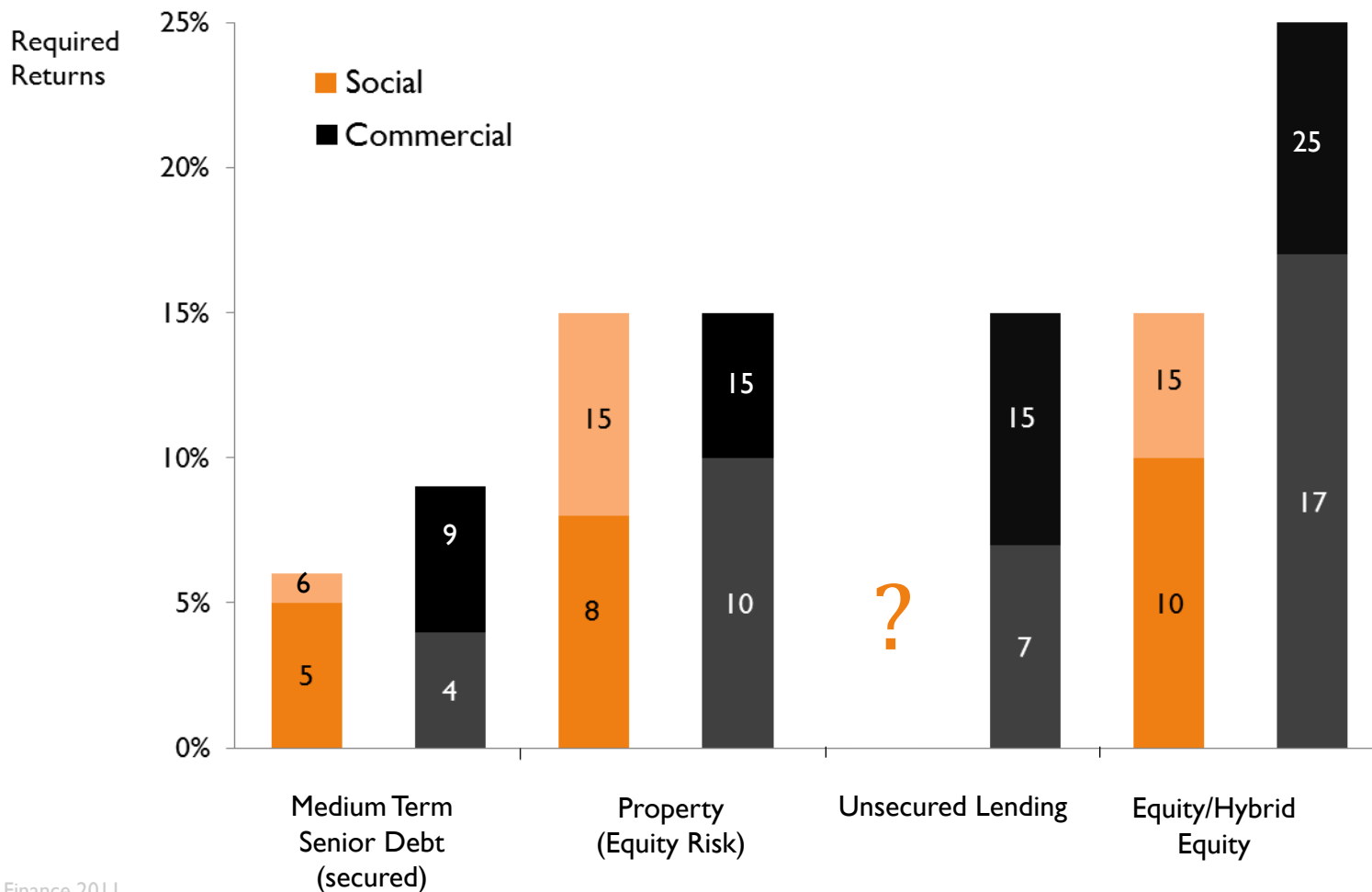




## HOW EXPENSIVE IS SOCIAL INVESTMENT?

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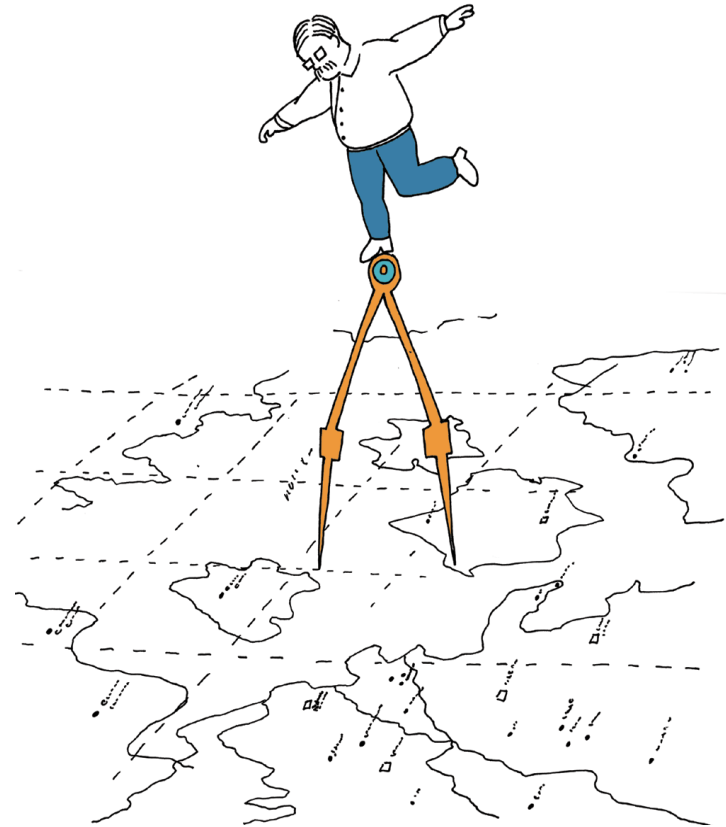
**Social lenders are moving towards greater risk assessment and logically a wider returns spread**





## Successful pilots will build confidence

- Government support for innovation
- Simple and transparent financing
  - Standard documentation
- Robust outcome metrics
  - Promote focus on hard-to-reach
  - Quality datapoints (deadweight)



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THANK YOU